

**MINUTES  
of the  
FIRST MEETING  
of the  
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**June 6, 2013  
Room 322, State Capitol  
Santa Fe**

The first meeting of the Investments and Pensions Oversight Committee (IPOC) for the 2013 interim was called to order by Representative Jim R. Trujillo, chair, on Thursday, June 6, 2013, at 9:10 a.m. in Room 322, State Capitol, Santa Fe, New Mexico.

**Present**

Rep. Jim R. Trujillo, Chair  
Sen. Sue Wilson Beffort  
Sen. Jacob R. Candelaria  
Rep. Larry A. Larrañaga  
Sen. Carroll H. Leavell  
Sen. Bill B. O'Neill  
Rep. Jane E. Powdrell-Culbert  
Rep. Henry Kiki Saavedra  
Sen. William P. Soules  
Rep. Luciano "Lucky" Varela

**Advisory Members**

Rep. Donald E. Bratton  
Rep. Miguel P. Garcia  
Rep. Roberto "Bobby" J. Gonzales  
Rep. William "Bill" J. Gray  
Rep. Tim D. Lewis  
Sen. Mary Kay Papen  
Rep. Sheryl Williams Stapleton

**Absent**

Sen. George K. Munoz, Vice Chair  
Sen. Steven P. Neville  
Rep. William "Bill" R. Rehm

Sen. Carlos R. Cisneros  
Sen. Stuart Ingle  
Rep. Emily Kane  
Sen. Timothy M. Keller  
Rep. Patricia A. Lundstrom  
Sen. William H. Payne  
Sen. John C. Ryan  
Sen. Michael S. Sanchez

**Staff**

Claudia Armijo, Staff Attorney, Legislative Council Service (LCS)  
Amy Chavez-Romero, Assistant Director for Drafting Services, LCS  
Ric Gaudet, LCS

**Guests**

The guest list is in the meeting file.

## **Handouts**

Handouts and other written testimony are in the meeting file.

## **Thursday, June 6**

### **Interim Committee Procedures**

Raúl E. Burciaga, director, LCS, gave the committee a briefing on legislative interim committee procedures. He discussed committee quorums, how the committee could function as a subcommittee if a quorum is not present, voting procedures and advisory member roles. He also briefly discussed the interim committee calendar and restrictions on committee meetings outside Santa Fe after September 30.

### **Update on Recent Investment Performance and Investment Policy and Governance Developments: State Investment Council (SIC)**

Steven Moise, state investment officer, and Vince Smith, deputy state investment officer, presented to the committee a report on the activities and performance of the SIC. Since 2010, when the current state investment officer was hired, the SIC has made multiple reforms, resulting in a well-managed and -governed office with more reliable investment returns. Investment decisions, which previously were made only by the state investment officer, are now vetted and recommended by committee. The SIC is on target to complete its three-year asset transition plan, shifting from a high percentage of stock investment to a more balanced approach consisting of stocks, bonds and private investment focusing on income-producing assets. The SIC has also neared completion of its transition from 40 percent of its assets being internally managed to complete external management, which is expected to yield significantly better returns. SIC staff now focus mainly on asset allocation strategies and then let highly qualified firms manage the actual investment portfolio.

The permanent funds managed by the SIC have grown more than \$3.9 billion in the past three years, with a total asset value of nearly \$18 billion. There have been \$1.6 billion in contributions and \$2.3 billion in distributions during that time period. Mr. Moise reminded the committee that contributions to the Severance Tax Permanent Fund (STPF) have been very small in the past 10 years, compared with distributions from the fund. He expressed concern that unless contributions to the STPF increase, the fund will not grow its corpus in the long term. In order to increase distributions each year, the corpus of the fund also needs to grow. That goal cannot be accomplished solely by investment of the fund.

Investment returns of the Land Grant Permanent Funds (LGPF) have rebounded in the past two fiscal years, as have those of the STPF. However, over a 10-year period, both funds have lagged behind the national median performance of similar public funds. The STPF has the additional hindrance of being required to have a portion invested in local economic development investments, which historically have not performed as well as other investments.

The SIC has some legislative priorities for the 2014 legislative session, including proposing a constitutional amendment removing the outdated 15 percent cap on investment in international securities and improving the standard of care the SIC must use in investing assets. The SIC also wants to clean up some statutory language and repeal the unneeded Private Equity Investment Advisory Committee. The Investment Committee of the SIC should be responsible for all investment decisions, including private equity investments.

Committee members discussed with Mr. Moise and Mr. Smith various issues, including:

- the benefits of external asset management versus internal management;
- the impact of the decline of the natural gas industry in New Mexico on distributions to the LGPF, including the impact that local regulation of natural gas operations will have in the future;
- the nearly annual "sweep" by the legislature for other projects of revenue originally intended to be deposited into the STPF and the dedicated revenue streams for public school, tribal, colonias and water infrastructure projects;
- the need to increase investment in New Mexico venture capital assets;
- concern about removing the "state agency" designation of the SIC;
- the usefulness of investing SIC assets in local farming and ranching operations;
- possible negative impacts of making investments in regions governed by controversial free trade agreements; and
- the current weak market for investing in government bonds.

SIC staff were requested to provide the committee with a recent report of Sun Mountain Capital, relating to New Mexico venture capital, and a presentation given by Bob Grant, relating to the history of New Mexico's permanent funds.

#### **Status Report on Actuarial Soundness of the New Mexico Retiree Health Care Authority (RHCA) Fund and Program Reform Proposals**

Mark Tyndall, executive director, RHCA, presented to the committee a status report on the RHCA. The RHCA, established in 1990, was not prefunded like the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). The Retiree Health Care Fund has never been sufficiently funded, and by 2007, an actuarial analysis predicted that the fund would be exhausted by 2014 if changes were not made to the system. Unlike New Mexico's retirement systems, the RHCA has broad authority to make changes to the system, but does need statutory changes to change contribution rates. Since 2007, the RHCA has made many

changes to the retiree health care system, including increasing deductibles, making changes to pre-Medicare and Medicare supplement plans and making changes to prescription benefits pricing. Retiree premiums have also increased, in accordance with medical inflation rates. The legislature has increased employer and employee contribution rates, but the RHCA is seeking further increases in order to stabilize the fund.

Mr. Tyndall said that all stakeholders in the retiree health care system have contributed to its solvency. The fund's solvency period has been extended to 2029, and the board of the RHCA has approved a plan to increase that solvency through 2043. The changes to the system have not decreased access to health care, and preventative care is still fully covered. Cost increases to RHCA members have remained substantially below the national average, and the state's funding level has been ranked fourteenth best in the nation. The 2043 solvency plan includes phasing out family coverage subsidies for retirees with multiple dependent children, increasing the cost-sharing on prescription coverage, increasing the cost-sharing for pre-Medicare plans and increasing the employee and employer contribution rates.

Committee members discussed with Mr. Tyndall several issues, including:

- the fact that membership in the RHCA is not a property right, unlike the PERA and ERB;
- the fiscal impact on the RHCA of the federal Patient Protection and Affordable Care Act, totaling \$2 million in new fees in the next few fiscal years; increased federal revenue of \$6 million to cover the full cost of Medicare prescription benefits; and the need to change some plan benefits in 2018 to avoid the excise tax on certain plans; and
- the \$6 million funding from the federal government to subsidize the early retiree reinsurance program. Committee members questioned the wisdom of providing a one-month premium holiday for that program instead of spending the money elsewhere. Mr. Tyndall said that he would provide the committee with copies of the restrictive federal guidelines on how that money could be spent.

### **PERA Update**

Patricia French, chair, PERA, and Wayne Propst, executive director, PERA, gave an update on the PERA fund and recent changes made to PERA legislation. The PERA fund has grown 15.7 percent since the beginning of the current fiscal year and was valued at \$13.3 billion in April 2013. The growth in the fund is primarily due to strength in global equity markets.

In 2013, the legislature made comprehensive changes to all public employee retirement plans in the PERA statutes. PERA staff have conducted numerous outreach meetings across the state and are in the process of sending correspondence to all PERA members to explain the changes. In addition, the Retirement Information Online (RIO) service is being reprogrammed,

tested and deployed in order to be ready for members by the July 1 effective date of the legislation.

Major changes in the PERA statutes include cost-of-living adjustment (COLA) reductions and eligibility changes, retirement eligibility, vesting period and pension benefit changes for new employees and increases in employee and employer contribution rates. For current members and retirees, changes include:

- reduction in the annual COLA from three percent to two percent, except for certain low-income disability retirees and retirees who worked for at least 25 years, which retirees will have their COLA reduced to 2.5 percent;
- a phased-in seven-calendar-year eligibility for early retirees to receive a COLA, with no change in COLA eligibility for those who retire at age 65 or older;
- a change in pension benefit calculations for those members who have service under multiple plans;
- an increase of the maximum pension benefit for most plans from 80 percent to 90 percent, designed to encourage increased years of service for members; and
- suspension of a COLA for return-to-work retirees during their period of reemployment.

For new members hired after July 1, 2013, changes include:

- an annual COLA of two percent, except for certain retirees;
- a seven-calendar-year eligibility for early retirees;
- a six-year vesting period for public safety members and an eight-year vesting period for all other members;
- a 0.5 percent reduction in the annual pension calculation factor and a maximum pension amount of 90 percent of final average salary;
- a blended pension calculation for members with service under multiple plans; and
- an increase in the age and service credit requirements for retirement for all plans.

Employee contribution rates will increase 1.5 percent beginning July 1, 2013, except for those employees earning less than \$20,000 annually in salary. Employer contribution rates will increase 0.4 percent beginning July 1, 2014.

Judicial retirement legislative changes passed by the legislature were vetoed by the governor. The PERA will try again in the 2014 legislative session to enact reforms to those plans, including additional COLA reform, increased contribution rates, reduction of the pension multiplier, an increased vesting period, an increased final average salary calculation period and elimination of the use of docket fees to pay for judicial retirement plans.

Committee members discussed many issues with PERA staff and board members, including:

- state employees will not see a decrease in their net pay, since they have been paying an additional 1.5 percent for several years. That increase, which had been scheduled to revert in fiscal year 2014, has been made permanent;
- the inequity between the employee and employer contribution rate increases;
- the need to reform the judicial retirement system; and
- the possibility that changes made to the PERA statutes will be considered by the courts as impinging on the property rights of public employees. PERA legal counsel believes that the changes made do not affect the "base benefit" of a public employee pension, and the legislature has the right to make changes to the retirement system to ensure the long-term viability of the system. Other people believe that a reduction in the COLA for current retirees and members negatively affects the property right that vested members have in the system, which property right is specifically protected by the Constitution of New Mexico.

### **ERB Update**

Jan Goodwin, executive director, ERB, presented an update on legislative changes made to the educational retirement system. She mentioned that ERB members have always paid a significant portion of their benefits received, compared to members in the PERA system. The ERB worked with many of its stakeholders to reform the educational retirement system and got support from most stakeholders from the beginning. Significant changes to the educational retirement system made during the 2013 legislative session include:

- a reduction in the COLA of 10 percent for most retirees if the Educational Retirement Fund falls below a 90 percent funded ratio;
- an increase in the eligibility age for a COLA from 65 to 67 for new members;
- an increase in the employee contribution rate over two years. The employer contribution rate was already scheduled to increase in fiscal year 2014; and

- changes to the current two-tiered retirement eligibility system and the addition of a third tier for employees who begin service on or after July 1, 2013. Certain retirees will have significant benefit reductions if they retire before a certain age.

Ms. Goodwin briefly discussed the performance of the Educational Retirement Fund, which had a market value of \$10.2 billion on March 31. Investment of the fund has returned 11.2 percent thus far in fiscal year 2013, with a 10-year average return of 8.8 percent. The ERB has tried to reduce volatility of the fund by reducing its holding in stocks and increasing its interests in private equity and real estate.

Committee members discussed several issues with Ms. Goodwin, including:

- the legislature should look at the diversification of all of the state's retirement and permanent funds;
- retirees from the University of New Mexico feel that their property right to their pension has been diminished by the recent legislation; and
- teachers' wages have been effectively reduced in the past few years from increased employee contributions.

### **2013 Interim Work Plan and Meeting Schedule Adoption**

Ms. Armijo discussed the proposed work plan for the committee during the 2013 interim. In addition to the written proposed work plan, committee members suggested some other areas of study, including a report on the actuarial soundness of certain marginal retirement plans and how to fix them; a report on the effect on the retirement system from a lawsuit seeking back pay for certain public employees; and a study of the actuarial soundness of the legislative retirement plans and possible reforms to the plans.

The committee adopted the proposed work plan, with the changes noted, without objection.

There being no further business, the committee adjourned at 4:25 p.m.